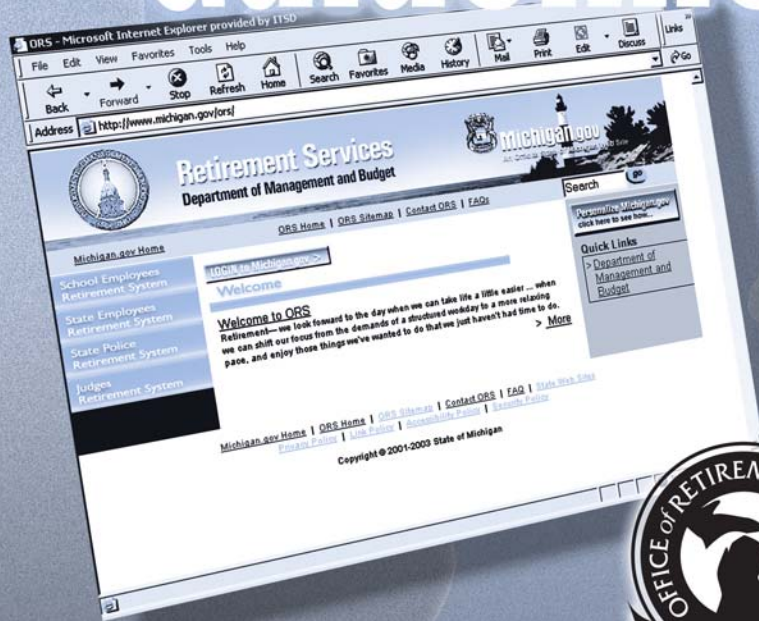


July 2003

Retirement Guidelines



State Police Retirement System

Table of Contents

Table of Contents	1
Introduction	3
ORS Office Locations	5
ORS Office Map	7
Retirement at a Glance	8
Participating in Your Retirement Plan	9
<i>Contributing to the Plan, Post-Tax Contributions, When Your Participation Ends, Refund of Contributions</i>	
Planning For Your Retirement	11
<i>Qualifying for a Pension, Regular Retirement, Deferred Retirement, When Pension Payments Begin</i>	
When to Apply for Retirement	13
Enhancing Your Pension Status	14
<i>What is Service Credit?, Adding to Your Service Credit, Service Credit Purchase Requirements, Using a Rollover of Tax-Deferred Money</i>	
Types of Service Credit	15
Benefits Before Regular Retirement	18
<i>Disability Pensions, Preretirement Survivor Pensions, Funeral Expenses, Refund of Contributions</i>	
Is It Time For You To Retire?	23
Review All Facets of Your Retirement Planning	24
Tax Obligations	25
<i>State and Local Income Tax, Federal Income Tax</i>	
Receiving Your Pension Payment	27

Starting the Application Process	28
<i>Your Retirement Application Packet</i>	
Calculating Your Monthly Pension	30
<i>Calculating Your Final Average Compensation, Post Retirement Increases</i>	
Survivor Benefits After Retirement	32
Insurance Information	33
<i>State Health Plan, HMOs, Life Insurance, Vision Insurance, Dental Insurance, When Coverage Begins, Insurance for Deferred Members, Survivor Coverage, Continuation of Coverage, Medicare and You, Coordination of Benefits</i>	
Appendix A: Pension Calculation Worksheets	38
<i>Regular Pension, Deferred Pension, Post-Retirement Increases</i>	
Appendix B: Divorce and Domestic Relations Orders	42
Appendix C: Financial Planning Information	43
Index	47

Introduction

Retirement. You look forward to it as a time to enjoy the good life you've earned. To enjoy retirement to its fullest, you need financial security. The state of Michigan established a retirement plan to begin building that security for you. This retirement plan, together with social security contributions (if eligible, see page 13) and your personal savings, can help you ensure financial security during your retirement years.

The Michigan State Police Retirement System (SPRS) retirement plan is designed to provide you with a monthly income, called a pension, when you retire. This plan also helps protect you and your family by providing health insurance and survivor benefits.

This book will guide you through the details of your retirement plan. On the following pages, you'll find answers to many of your questions about the plan:

- *How is my pension calculated and how much will I receive?*
- *What other retirement benefits will I receive?*
- *When can I start receiving my pension?*
- *What happens if I become disabled?*
- *What happens if I die before I receive my pension?*

Use the *Retirement Guidelines* throughout your career to help you plan for retirement. When you're ready to retire, use it to help you make benefit decisions.

Please read this book carefully. Share the information with your family and co-workers, and save it for future reference. You should contact the Office of Retirement Services periodically for updated versions or check the ORS web site.

This book is a summary of the main features of the plan and not a complete description. The operation of the plan is controlled by the State Police Retirement Act, (Public Act 182 of 1986, as amended). If the provisions of the Act conflict with this summary, the Act controls.

For More Information

For further assistance with your retirement-related questions, you can speak with a Retirement Information Representative during normal business hours, Monday through Friday, 8:30 a.m. to 5:00 p.m. Call ORS from the Lansing area at 517-322-5103, or toll-free at 800-381-5111.

Or you can write to:

Office of Retirement Services (ORS)

P.O. Box 30171

Lansing, MI 48909-7671

Send **all** correspondence to this address. All written requests for information should include your social security number, mailing address, and phone number. You can request certain account-specific information by telephone, but you must provide sufficient information to verify your identity.

If you wish to meet with a Retirement Information Representative, you can come to the Lansing Office during normal business hours. This service is provided in Lansing on a walk-in basis, so no appointment is necessary. However, if you prefer to go to our Detroit Office, please call the telephone number listed on page 6 and schedule an appointment with a Retirement Representative.

ORS has two offices

(See map on page 7)

Lansing Office:

Physical Location:

General Office Building
State Secondary Complex
7150 Harris Drive, Lansing

Directions: (I-96 to Lansing Rd., Exit 98A, south to Canal Road. See map on page 7.)

Office Hours: Monday - Friday,
8:30 a.m. to 5:00 p.m.

No appointment is necessary at the Lansing office only.

Mailing Address:

P.O. Box 30171
Lansing, MI 48909-7671

Address for Payments ONLY:

P.O. Box 30673
Lansing, MI 48909-8173

Note: All written correspondence and any payments for service credit purchases must be submitted to the main office in Lansing.

Telephone:

517-322-5103 in the Lansing area
800-381-5111 (toll-free/outside Lansing)

Fax: 517-322-1116

E-Mail Address:

ORSCustomerService@michigan.gov

Detroit Office

Cadillac Place

3068 West Grand Boulevard, Suite 4-700

Detroit

Office Hours: Please call for an appointment.

Telephone: 313-456-4010

Fax: 313-456-4011

ORS Web Site

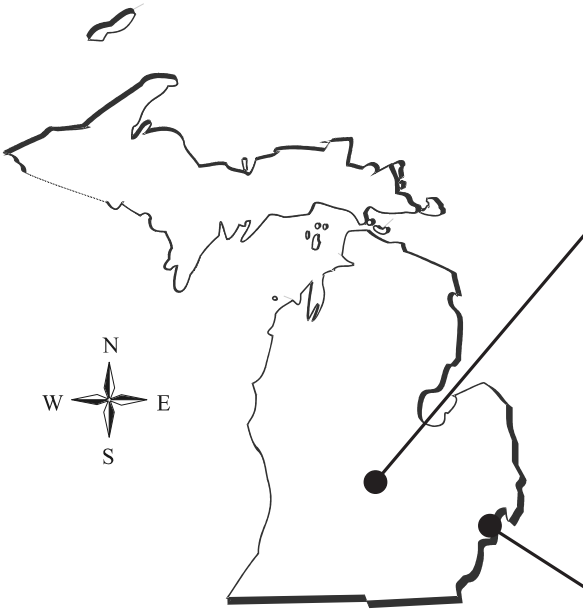
www.michigan.gov/ors

Check out the ORS web site. You can download publications and forms, use the handy search function to get answers to your specific questions, and stay up-to-date on your retirement plan. New features are added regularly, so be sure to bookmark the site and visit often.



Office of Retirement Services

Office Locations



Correspondence Address

Office of Retirement Services
P.O. Box 30171
Lansing, MI 48909-7671

Web Site

www.michigan.gov/ors

Lansing Office

7150 Harris Drive
Lansing, Michigan
Phone: 517-322-5103
Toll-Free: 800-381-5111



Detroit Office

Cadillac Place
3068 West Grand Boulevard,
Suite 4-700
Detroit, Michigan
Phone: 313-456-4010



Customer Information Center

In Lansing: 517-322-5103
Toll-free: 800-381-5111

E-mail: ORSCustomerService@michigan.gov

Retirement at a Glance

This chart gives you an overview of some of the State Police's pension plan features and terminology. Refer to the individual sections for more detailed information.

Plan Participants – Membership is automatic for all enlisted officers, beginning with Recruit School.

Contributions – The State Police contributes a percentage of payroll on your behalf.

Regular Retirement Eligibility – Any age with at least 25 years of service as an enlisted officer.

Regular Retirement Pension Formula – Your final average compensation X 60% = your annual pension.

Deferred Retirement Eligibility – At least age 50 with at least 10 years of service.

Deferred Retirement Pension Formula – 2% of your final average compensation X your years and months of service.

Duty Disability and Duty Death Pension Formula – Your final average compensation X 60% = your annual pension.

Nonduty Disability Pension Formula – Prior to vesting (10 years) there is no eligibility; after 10 or more years of service, pension formula is: your final average compensation X 2.4% X your years and months of service. Payments begin immediately.

Service Credit – The years you work in the Michigan State Police as an enlisted officer and any additional eligible years of credit you acquire.

Final Average Compensation (FAC) – The average of either your two **final** years (24 months) of total earnings of State Police employment OR the 24 months preceding a duty incurred injury.

Insurance Coverage – Retirees and their eligible dependents may enroll in health, dental, vision, and life insurance coverage at retirement. Eligible beneficiaries may continue coverage after a retiree's death under certain circumstances.

Participating in Your Retirement Plan

You become a State Police Retirement System member and begin accruing credit toward a pension as soon as you begin Recruit School.

Contributing to the Plan

The retirement plan is funded by contributions from the Michigan State Police and by investment earnings on these contributions. All contributions are a funding source for the pension and do not result in benefits in addition to the pension. At the time of retirement, contributions are transferred to the pension reserve fund, from which monthly pensions are paid.

Each year, an actuary determines how much the Michigan State Police needs to contribute to fund its portion of members' benefits. These contributions are not refundable to you or your employer.

Post-Tax Contributions

If you participated in the Contributory Plan before 1974, your after-tax contributions are credited to your member account.

In addition to your pre-1974 contributions, your balance includes payments for purchases of additional years of credit.

Interest is credited annually on September 30 to your member account balance as of the previous September 30.

When Your Participation Ends

You will participate in this Retirement System throughout your Michigan State Police employment as an enlisted officer. If you cease to be employed by the Michigan State Police as an enlisted officer, you are no longer an active member of this Retirement System.

Refund of Contributions

When you cease to be a member before reaching the minimum age and service requirements to qualify for a retirement benefit, you may withdraw your **personal** contributions, plus accumulated interest. This refund includes all payments and accrued interest for any additional years of credit you purchased. If you receive a refund of contributions, you will forfeit **all** service credit ***accrued prior to the date of the refund***. There is no provision for a partial refund. To apply for a refund, contact the Retirement System.

A refund of contributions cancels all service accrued prior to the date of the refund. There is NO PROVISION for repaying the refund of contributions to restore the service represented by the refund.

You may also leave your contributions on deposit. Interest will continue to accrue.

Deferred Member Status – If you are not eligible to receive an immediate pension, but have 10 years of service credit when your participation ends, you are considered a deferred member. You may leave your contributions on deposit with the Retirement System, where they will continue to earn interest. You can apply for a pension from the Retirement System when you meet the age requirement. See *Qualifying for a Pension*, page 11.

Planning For Your Retirement

The Office of Retirement Services (ORS) is the state agency that will process your retirement application and pay your pension under the provisions of the State Police Retirement Act, P.A. 182 of 1986, as amended. ORS will be your “partner in retirement” throughout your lifetime.

Qualifying for a Pension

To retire with a regular pension, you must meet the minimum service requirements. To qualify for a deferred retirement, you must have 10 years of service and meet the age requirement.

Regular Retirement

You are entitled to a regular pension if you are any age and have at least 25 years of service credit.

NOTE: You must apply for retirement at least 30 days before your retirement effective date to be eligible for the full retirement benefits package. If there is more than a 30-day gap between your State Police separation and your retirement effective date, you will be a deferred retiree and not eligible for the life insurance benefits.

Deferred Retirement

If you leave State Police employment prior to reaching 25 years of service, you will be a deferred retiree and will receive a pension benefit at age 50.

You may defer your pension if:

- you leave State Police employment prior to age 50;
- you leave your contributions on deposit;
- you have at least 10 years of service credit; and
- your separation does not involve a breach of the public trust.

You can defer your pension until you reach the minimum age requirement. If you defer your pension and you have between 10 and 24 years, 11 months of service credit, you are eligible to begin receiving your pension at age 50.

Delaying your application until age 62, 65 or older will not increase your monthly pension. By delaying, you lose the payments you could have received, beginning at age 50. (See “*When to Apply for Retirement*” on page 13.)

Deferred member returning to work: If you return to work as an enlisted officer after qualifying for deferred member status, you will again become a member of this Retirement System.

Applying for deferred retirement: You must apply for your benefits by completing an application for retirement at least 30 days, but no more than 90 days, prior to your effective date of retirement. The effective date of a deferred retirement is the first of the month following your fiftieth birthday. Please contact the Retirement System for an application packet.

When Pension Payments Begin

Your retirement effective date is the first day of the calendar month following the date:

- you have satisfied the eligibility requirements;
- you have terminated employment with the Michigan State Police; and
- your retirement application forms have been on file with the Retirement System for at least 30 days.

If you complete your application forms and file them timely with the Retirement System, your pension should begin within one to three months of your retirement effective date, and will include any retroactive payments you are due.

When to Apply for Retirement

You must apply for retirement no less than 30 days, and no more than 90 days, before your last day of State Police employment. To get retirement application materials, contact the Office of Retirement Services (see page 4). To make your timely application possible, request application materials seven months before the date you plan to terminate employment. This will allow you adequate time to:

- Put the finishing touches on your financial plans. (To do so, estimate your pension benefits.)
- Get a current estimate of your social security benefits (if applicable) from the Social Security Administration (SSA) by completing and returning the Social Security Statement request form (SSA-7004), which is available from the SSA. Any benefits you might receive from social security are separate from your State Police pension. For more information about your social security benefits and eligibility, contact the SSA.
- Explore payment options for any of your Individual Retirement Account(s) (IRA), deferred compensation, and other investments with the representative or institution handling your savings.
- Compile questions you need answered or clarified by Retirement staff.
- Purchase additional service credit. (You must make your payment **before** your employment ends.)
- Read through the medical, dental, vision, and life insurance information to learn what benefits are available after you retire.
- Understand how an Eligible Domestic Relations Order (judgment of divorce), if one is on file with the Retirement System, will impact your pension.
- Submit your application one to three months before your employment terminates.

REMINDER: Please fill out all forms completely and accurately. If you submit incomplete or unsigned forms, your pension may be delayed.

Enhancing Your Pension Status

As part of your financial planning, you may wish to end your employment with State Police before accruing the 25 years of service necessary to qualify for full pension benefits. You can take advantage of three different options that include granting or purchasing additional service credit.

Generally it is advantageous to purchase service credit once you have determined an actual retirement effective date, although the cost is typically less earlier in your career. However, if you do purchase more service than necessary to retire, the payment will not be refunded.

What is Service Credit?

You accumulate service credit for the hours you work for the State Police. As a Retirement System member, you can also purchase additional service credit. However, ***you can not accumulate more than one year of retirement credit in any given year***, whether earned or purchased. Your total service credit, which includes credit you earn and credit you buy, counts towards regular pension eligibility.

If you have less than 25 years of service and take a deferred retirement, any service credit you acquire would be used in the pension calculation to increase your monthly pension. ***Contact ORS to verify your service credit records.***

Adding to Your Service Credit

If you qualify, you may buy or be granted credit to supplement your earned service credit. As a member of this Retirement System, you may buy credit once you have vested with 10 years, but cannot buy service credit to reach the 10 years needed to qualify for a pension.

Service Credit Purchase Requirements

To apply for and purchase service credit, you must be employed with the State Police. You must pay for the credit **before** you leave employment. If you qualify, you can buy and/or receive credit for any of the following:

Type of Credit	Cost	Limit
Active duty military	Intervening, no charge	*2 years
	Nonintervening, 5% of full-time compensation in year in which you make payment.	
Maternity/Paternity/ Child Rearing	Actuarial cost	2 years
VISTA/Peace Corps	Actuarial cost	*2 years

***Maximum of 2 years combined total may be purchased**

Using a Rollover of Tax-Deferred Money

You can purchase service credit with rollover money from most pre-tax investment accounts, including 401(a) and 401(k) plans. Due to the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), as of January 1, 2002, rollovers from 403(b) and 457 plans, as well as 403(b) and 457 conduit Individual Retirement Accounts (IRAs) will also be accepted.

Note: We can accept a rollover only up to the amount of the additional service credit purchase.

If you are considering a rollover of funds to purchase service credit, please consult your tax advisor. To learn more about rollovers and EGTRRA and how they may affect you, visit our web site at www.michigan.gov/ors.

Types of Service Credit

Active duty military service

You can receive credit, under certain circumstances, for time you spend in military service. The amount of credit and the cost to you depends on whether your military service intervened your State Police service; when you served; state law; the federal law in effect at that time; and how long you served. If you have both intervening and nonintervening military service, or if you purchase VISTA or Peace Corps service credit, the maximum service credit you can receive, for any combination of these, is two years.

Intervening: You may receive up to two years of service credit at no cost if you leave State Police service, enter active duty in the U.S. Army, Navy, Marine Corps, Air Force or Coast Guard – including reserve components – and return to employment with the State Police within 6 months of discharge, or if hospitalized, within 6 months of discharge from the military facility.

Nonintervening: If your active duty U.S. military service did not interrupt your State Police service, you can purchase up to two years of credit. Only nonintervening active duty in the U.S. Army, Navy, Marine Corps, Air Force or Coast Guard – including reserve components – is purchasable.

Your cost will be 5% of your full-time compensation in the year you make payment, times the number of years of military credit you purchase. As a member of this Retirement System, nonintervening active duty military service cannot be credited until you have attained 10 years of service, with the last five years being continuous service.

You cannot receive or buy credit for military service if you receive credit for the same service under another publicly supported retirement system, or if you already received credit for this same time period through this Retirement System. *This restriction does not apply if you will be eligible to retire from the Federal government for service in the Reserve or are receiving disability benefits from the Armed Forces.*

To apply for military service credit, submit your request with a photocopy of your military papers showing entry and separation dates and ORS will evaluate your eligibility. For information about your military records, go to the National Personnel Records Center (NPRC) web site at www.nara.gov/regional/stlouis.html or write to NPRC at:

**Military Personnel Records
9700 Page Blvd., St. Louis, MO 63132-5100**

Worker's Compensation

Retirement System members are eligible to receive service credit for the time they receive weekly Worker's Compensation (WC). There is no cost for this credit.

Maternity/Paternity/Child-Rearing Time

As a State Police employee, you may purchase up to two years of service credit for purposes of maternity, paternity, or child-rearing time if you:

- separated from State Police service without intervening employment of more than 20 hours per week for which service is claimed
- reduced your hours of State Police service

Your cost will be an actuarial percentage of your highest annual earnings times the number of years of Maternity/Paternity/Child-Rearing credit you purchase. If you are a part-time employee, your earnings will be equated to full time. Maternity/Paternity/Child-Rearing service cannot be credited until you have accumulated 10 years of service.

To apply for Maternity/Paternity/Child-Rearing credit, send a copy of your child's birth certificate or final adoption papers with a written request stating the purpose for which you took leave or separated from service.

VISTA/Peace Corps

As a State Police employee, you may purchase up to two years of service credit for purposes of full-time service in the VISTA program or the Peace Corps. You must have 10 years of credited State Police service. To apply, submit a written request with documentation from the organization that lists the dates of service. This service may not be credited if it is being credited under another publicly supported retirement system.

Your cost will be an actuarial percentage of your highest annual earnings times the number of years of VISTA/Peace Corps credit you purchase. If you are a part-time employee, your earnings will be equated to full time.

You cannot receive more than a total of two years of service credit for any combination of VISTA, Peace Corps, intervening military service, or nonintervening military service.

Benefits Before Regular Retirement

Before you meet the service requirements to be eligible for a regular retirement, you and your family are protected with additional preretirement pension benefits. If you become ill or are injured on or off the job, or die prior to your retirement, you or your beneficiary may be eligible for a disability pension, a survivor's pension, or some other type of benefit. Eligibility requirements differ for each type of pension benefit.

Disability Pensions

If you become totally and permanently disabled while a member of this Retirement System, you may qualify for a disability pension. This Retirement System offers two types of disability pensions, depending on whether your disability results from your State Police employment.

Disability issues are complicated because most people don't plan to have to deal with them. Rather than trying to handle confusing disability decisions alone, we recommend you contact ORS for assistance and advice as soon as a disability pension may be necessary.

After retirement because of a disability, the retirant may be required to have a medical examination from time to time to determine if s/he is still disabled. If the medical examiners find that the retirant is no longer disabled, the Director of the Department of State Police may order him/her to return to active duty. A person who fails to return to employment following the order forfeits all rights to a retirement benefit unless s/he is otherwise eligible to retire.

Nonduty Disability Pension

A nonduty disability pension is appropriate when your disabling illness or injury does not result from your State Police employment. Your nonduty disability protection begins when you attain 10 years of service credit under this Retirement System. No minimum age requirement applies, so payments commence upon separation.

You are eligible to receive a nonduty disability pension if for any reason:

- you become totally and permanently unable to perform your duties as a State Police employee
- you do not meet the service requirements for a regular pension
- you have 10 or more years of service credit
- a medical review team, comprised of three physicians, one designated by the Department of Community Health, one designated by the Department of Management and Budget, and one physician designated by the applicant, determine that disability exists, and certifies that to the Retirement Board
- the State Police Retirement Board approves the disability (the determination of the medical team is binding on the Board)

If you are approved for a nonduty disability pension, the pension amount is 2.4% of your final average compensation times the number of your years and months of service (up to 25 years).

Duty Disability Pension

You have duty disability protection from the day you successfully complete your recruit training. If you are disabled by a work-related illness or injury *after graduation from the Academy*, you can apply for a duty disability pension.

You must complete the forms in the disability application packet, including the *Application for Disability Retirement* (R83X). You may obtain these forms by contacting your Human Resource office or ORS.

You are eligible for a duty disability pension if:

- you become permanently unable to perform your duties as a State Police employee
- a medical review team, comprised of three physicians,

one designated by the Department of Community Health, one designated by the Department of Management and Budget, and one physician designated by the applicant, determine that disability exists, and certifies that to the Retirement Board

- the State Police Retirement Board approves the disability. In cases of duty disability, the Board must make the decision. The Retirement Board is bound by the determination that a disability exists, but the medical opinion regarding whether or not it is duty-related is advisory and is not binding on the Board.

No minimum service requirement applies to a duty disability. The pension amount is equal to 60% of your final average compensation, payable monthly.

Due to the enactment of 2000 P.A. 374, there is a change in how the Retirement System calculates the duty disability pension amount. The retirement pension payable under duty disability shall not exceed the greater of the following:

- the average annual salary earned by the member for the two years immediately before the date of injury,

OR

- the average annual salary earned by the member for the two years immediately before the member's last day of service.

The sum of the duty disability pension and the statutory worker's average annual compensation benefits applicable in the case shall not exceed the average annual salary earned by the member for the two years immediately before the duty disability retirement effective date.

Preretirement Survivor Pension

If you die before retiring, your spouse or children may receive a nonduty or duty survivor pension, if you qualify.

Nonduty Survivor Pension

Your spouse or children under age 18 may receive a nonduty survivor pension upon your death if you are either:

- An active member with 10 or more years of service, OR
- A deferred member and die before retiring (See page 11.)

Your spouse is automatically your beneficiary for a lifetime monthly benefit. If you do not have a surviving spouse (or if your surviving spouse dies), your children under age 18 will share in a monthly benefit until they reach age 18.

Survivor Pensions for Deferred Members

If you leave State Police service prior to age 50 and have 10 or more years of service credit, your surviving spouse is eligible for a lifetime survivor's benefit. This benefit is payable when the deferred member would have reached age 50. No additional pension benefits are payable to minor children or other dependents of a deferred member.

Duty Survivor Pension

As an active member, if you are killed while discharging your duty, or die from injuries or an illness resulting from your occupation, the Retirement System provides a lifetime benefit to a surviving spouse. The pension benefit is equal to 60% of your final average compensation, payable monthly. In addition, if a benefit is payable to a surviving spouse, a benefit of \$100 per month will be paid to each of your children, if any, until age 18.

If there is no surviving spouse (or if your spouse dies), your children under age 18 will receive equal shares of the monthly pension until they turn 18.

If you die without a surviving spouse or dependent children but have a mother or father dependent upon you for support, the monthly pension will be paid to them until the dependency ceases.

If you have no spouse, dependent children or dependent parents at your death, but have sisters or brothers under age 18 who are dependent upon you for support, each of them will receive \$100.00 per month until age 18.

If you die with no eligible dependents, any undistributed personal contributions plus interest, or \$1,500, whichever is greater, will be paid to your estate.

NOTE: Post retirement increases and minimum annual retirement pension provisions of the Retirement System do not apply to the special \$100.00 monthly pension to children and the pension to dependent parents and siblings.

Funeral Expenses

A sum, not to exceed \$1,500.00, is paid for your funeral expenses if you are killed, or die from injuries, disease, or illness contracted due to your State Police occupation.

Refund of Contributions

If there are no eligible dependents to receive a benefit at your death, any undistributed personal contributions, including accumulated interest, will be paid to your estate.

Filing for Survivor's Benefits

When a member dies, the beneficiary or other representative should notify ORS of the member's death as soon as possible.

Retirement System staff will review the member's file to determine what benefits, if any, are payable, and to whom. This determination will be sent to the beneficiary, or the person who notified ORS. If benefits are payable, the beneficiary will be sent a copy of the determination, along with appropriate forms for him or her to complete and return with the following documents, if required:

- death certificate
- marriage license (only needed if spouse is beneficiary)

If a survivor pension benefit is payable, the pension effective date will be the first of the month following the member's death. If benefits are not payable, the beneficiary will be informed in writing.

Is It Time For You To Retire?

Check Your Retirement Readiness

Answering these questions may provide some insight into how well you are prepared to retire.

☐ **YES** ☐ **NO:** Do you own your home free and clear? If not, will you have enough income to pay for it?

☐ **YES** ☐ **NO:** Have you planned for the future of children or others financially dependent on you?

☐ **YES** ☐ **NO:** Have you estimated how much retirement income you will receive from all sources? Is your estimate approximately 60-80% of your preretirement income?

☐ **YES** ☐ **NO:** Have you included a realistic inflation factor in estimating the income you will need throughout retirement?

☐ **YES** ☐ **NO:** Have you saved for or planned for major expenses such as home repairs or an automobile purchase you expect to make during retirement?

☐ **YES** ☐ **NO:** Do you plan to maintain cash in reserve for a family emergency?

☐ **YES** ☐ **NO:** Do you have a current estimate from the Social Security Administration of what your benefits will be, if applicable?

☐ **YES** ☐ **NO:** Have you considered that at a time of increasing life expectancies, greater demand is placed on your personal savings and investments since they must last for a longer time period?

☐ **YES** ☐ **NO:** Have you reviewed your life insurance needs and made sure your beneficiary designation is current?

☐ **YES** ☐ **NO:** Have you considered the potential benefit to yourself and your loved ones of making a living will?

☐ **YES** ☐ **NO:** Have you and your family clearly communicated your retirement expectations to each other and formulated a mutually acceptable plan?

☐ **YES** ☐ **NO:** Do you already have a fulfilling leisure time activity or hobby you plan to devote more time to in retirement?

The more “yes” answers you have, the more adequate your retirement preparation and the more likely you’ll be able to preserve your standard of living.

If you have more “No” than “Yes” answers, should you delay your retirement date and continue to work? Only you can answer this. This booklet points out several important considerations for successful financial planning and retirement.

Review All Facets of Your Retirement Planning

As you evaluate your readiness to retire, you have much to consider. The following should help you review your situation.

Debt: If at all possible, you should enter retirement debt-free. Monthly payments can place a strain on your retirement income.

Your planning needs to include setting aside money for unanticipated expenses – such as replacement of a furnace – and anticipated items, such as replacing an automobile.

Pension Payment Schedule: You are probably accustomed to receiving a paycheck every two weeks. Your State Police pension is paid at the end of each month, for that month.

Life Insurance: The Retirement System provides life insurance to employees who retire directly from State Police employment, and have life insurance as a State Police employee. The coverage as a retiree is 25% of your coverage as an active State Police employee. Dependent life insurance coverage is reduced to \$1,000.00. This coverage is at no cost to the retiree. You may purchase additional life insurance coverage by contacting your Human Resource office and requesting the packet for life insurance conversion.

Estate Planning: Your assets, in combination with your State Police pension, may be of sizable worth. Most people don't want to think about death. Yet, if you don't make plans and decisions, somebody else will have to make decisions for you. That "someone" else may be a spouse or a friend, or the court. The decision may not always be as you would have chosen. To ensure that your plans and decisions are carried out, you need estate planning.

Estate planning starts with an inventory of your assets and ends with a will. A will is typically a written document directing the disposition of your property after death. A durable medical power of attorney directs your next of kin and medical providers regarding your care in the event you become physically or mentally incapacitated. Now is the time to make these critical decisions concerning your estate and medical care at the end of your life.

Leisure time: For many new retirees, the needs of a growing family, job pressures and financial pressures have faded into the background. How are you going to use this new-found leisure time? Before retiring, develop a plan. You'll soon have the extra time to do things which you never did before. Plan to do what is important and fulfilling to you.

Health: If you have dependent children living at home attending college, or others who are dependent on you – such as an elderly parent – you have special considerations to include in your financial planning. You may have to make special provisions for their health, dental and vision insurance needs.

Tax Obligations

State and Local Income Tax

Pensions paid by the State Police Retirement System are exempt from Michigan state and city income tax.

Although you are exempt from paying Michigan income tax, you must file tax returns for state and city (if applicable) acknowledging your State Police pension and claiming your exemptions. Direct your questions about Michigan income tax liability to the Michigan Department of Treasury at 800-487-7000.

If you don't live in Michigan, check the state and local income tax provisions for your area.

Federal Income Tax

Your State Police pension is subject to federal income tax.

If you do not want tax withheld, or want a specific amount withheld, you must complete a *Federal Income Tax Withholding Authorization form (R12X)* and return it to ORS. If you don't file a tax withholding authorization form, the Retirement System is required by federal law to withhold tax from your pension based on the amount for a married person with three exemptions.

Each January, ORS sends retirees a Form 1099-R. This form details the gross pension amount paid during the preceding year, the portion subject to federal tax, and the tax withheld. The 1099-R information is also sent to the Internal Revenue Service (IRS).

You have post-tax money on deposit if you:

- made contributions on pre-1974 employment, or
- purchased additional service credit with post-tax dollars.

You have paid taxes on this money and won't be taxed on it again. Federal law requires the tax credit for this money to be distributed over the expected lifetime of you and

your beneficiaries. Therefore, each monthly pension payment may contain both taxable and nontaxable income.

The federal government projects your expected lifetime. If you die earlier than the government projects, your estate will have after-tax credit not yet claimed. That amount can be deducted on your final income tax return.

The total amount of your after-tax money will be reported to you before your first pension payment is issued. Keep this information. It may be important when your estate is administered.

You may want to contact the IRS if you have questions about your federal tax liability as a retiree. Check your phone book, under U.S. Government, for the IRS office nearest you.

Duty disability pensions or duty death benefits are exempt from federal income tax under the current Internal Revenue Code. To be exempt, disability pensions must meet three criteria:

- Benefit is not based on years of service.
- Benefit is not based on age of retiree.
- Benefit is not determined by employee contributions.

Receiving Your Pension Payment

When ORS sends pension payments. Pension payments are made near the end of each month, for that month. You should receive your first pension payment one to three months after you end your State Police employment and all your required retirement forms are on file with the Retirement System. Your first pension payment is retroactive to your retirement effective date.

When you retire, you will select the method by which you will receive your monthly pension payment. You must choose either Electronic Funds Transfer (EFT) into your bank account or a paper check mailed to your home. EFT automatically deposits your pension payment each month.

ORS strongly recommends you choose EFT. When you use electronic funds transfer, your pension is electronically deposited directly in your account at your financial institution on the same date the paper check is dated – usually the 25th of the month. By law, the Retirement System must distribute pension payments by the end of the month.

This option is safer and more convenient, eliminating the possibility that your pension payment will be lost, stolen or delayed in the mail. If your pension check is lost or stolen and cashed fraudulently by someone else, replacement could take six to 12 months.

When you select the EFT option, the Retirement System mails a statement to your home six times a year providing year-to-date payroll information. It tells you the dates your pension will be deposited in the upcoming period. As of the publication date of these guidelines, EFT statements are scheduled to be mailed in January, March, May, August, October, and December.

When you elect EFT, your first pension payment is mailed to your home before the electronic deposit begins. This allows a test period with your financial institution to ensure that routing, account and social security numbers are accurate.

Starting the Application Process

When you're ready to retire, you can get retirement application forms by calling ORS at 517-322-5103 in the Lansing area, or toll-free 800-381-5111. **Submit your completed retirement application forms at least one to three months before your retirement effective date.**

Your Retirement Application Packet

Following is a list of the forms in your Retirement Application Packet and an explanation of the function of each.

Application for Service Retirement (R8501H) – This form acknowledges your decision to retire and the provisions under which you are retiring. It allows Retirement staff to determine your retirement effective date.

Retiree Life Insurance Beneficiary Designation form (UG2787) – This form allows you to name a primary and contingent life insurance beneficiary. This benefit may be divided in any manner and among as many beneficiaries as desired. A named beneficiary MAY NOT sign as a witness on this document.

Electronic Funds Transfer (Direct Deposit) Application (R277X) – Use this form to request that your monthly pension payment be processed by electronic funds transfer to your bank account. If you do not complete and return this form, a paper check will be mailed to your home each month.

Group Insurance Application (R329M) – This form allows you to enroll yourself and your eligible dependents in one or more of the group insurance plans and indicate the date you wish coverage to be effective.

Federal Income Tax Withholding Authorization (R12X) – This form allows you to specify how you wish to have federal income tax withheld from your pension.

Insurance information sheet – If you have questions about the insurance plans, you may call the insurance providers directly at the toll-free numbers listed.

Submitting Your Retirement Application

Read and complete the required forms, then mail them to:

**State Police Retirement System
P.O. Box 30171
Lansing, MI 48909-7671**

Retirement staff will confirm the receipt of your forms. If you submit an incomplete application, staff will notify you and tell you what is missing or incomplete so your application can proceed. **If necessary documents are missing, your pension payment will be delayed.**

Keep your home address up to date with ORS, once you retire. The Retirement System needs your current address for mailing the EFT statements and special mailings, such as insurance rate notices, income tax information, and other important notices you will receive. To change your address, send ORS a signed letter with your old address, your new address, and the date you want the change to be effective. Also be sure to include your social security number in the letter.

You may wish to make copies for your records of all documents you submit to the Retirement System.

Notification Your Application Is Complete

When processing of your application is complete, Retirement staff will mail you a letter advising when you will receive your first pension payment, plus a summary of the pension and benefit selections you made.

Effective Date of Retirement and Your First Pension Check –

Your retirement is effective the first of the month following the month in which:

- you have satisfied the eligibility requirements;
- you have terminated your State Police employment;
- and your retirement application forms have been on file with the Retirement Office for no less than 30 days prior to your effective date and no more than 90 days prior to your effective date of retirement.

Calculating Your Monthly Pension

Your pension calculation is as follows;

- **Regular retirement/Duty Disability/Duty Death:** 60% of your two-year Final Average Compensation (FAC)
- **Deferred retirement:** 2% of your two-year FAC, times the years and months of service
- **Nonduty disability:** 2.4% of your two-year FAC, times the years and months of service

Calculating Your Final Average Compensation

Average annual salary includes the following items earned during the member's last two years of service:

1. Regular salary including, but not limited to, that salary which is deferred as part of a state deferred compensation program
2. Overtime, shift differential, and shift differential overtime
3. Gross pay adjustments representing moneys earned in FAC period that are creditable towards retirement
4. Up to a combined maximum of 240 hours of accumulated annual leave/personal leave paid at the time of retirement separation
5. Deferred hours under Plan B for the fiscal years ending September 30, 1981, and September 30, 1982, that are paid at the time of retirement
6. Longevity pay
7. Bomb squad pay
8. Post 29 freeway premium
9. On-call pay
10. Up to 80 hours of compensatory pay
11. Worker's Compensation, as appropriate
12. Emergency Response Compensation

Note: At retirement, the Department of State Police will pay you for your annual/personal leave balance, one-half your sick leave balance (if eligible), prorated longevity,

and any other leave balances you have accrued and which are payable at retirement. The payment for one-half your sick leave balance WILL NOT be used in the calculation of your retirement benefit. If your annual leave balance is more than 240 hours, you will be paid for those hours at your ending pay rate by your employing agency. Earnings used in the FAC will be gross earnings before deferred compensation or other income withholding.

Post Retirement Increases

As a State Police retiree, you will receive a fixed 2% annual increase, not to exceed \$500.00. You receive your first increase in the second October after your retirement. If you retire July 1, 2003, you will receive the initial 2% increase in October 2004.

The 2% increase does not compound, but it does accumulate. In the second year after retirement, your initial pension increases by 2% of your initial pension, not to exceed \$500.00. The following year, and each year thereafter, you receive the same increase.

For example if a retiree receives an annual pension of \$20,000, the increase would be \$400.00 (2% of \$20,000) every year. The annual pension in the second year is \$20,400.00; in the third year \$20,800.00 and so on.

Appendix A, page 38, contains worksheets and instructions you can use to estimate your future pension. Remember, this is only an estimate. When you retire, Retirement staff thoroughly reviews and audits your account to calculate your pension amount.

Maximum Pension Amount Limitation

In rare instance, IRS Code limits the pension amount that can be paid to very highly compensated individuals. Section 401(a)(17) of the IRS code restricts the amount of annual compensation that can be used to calculate a pension. Section 415(b) sets the maximum amount of pension that can be paid. Contact ORS if you believe your pension may exceed the limits.

Survivor Benefits After Retirement

Retirees receiving a disability pension or a regular retirement pension based on 25 or more years of service are eligible for survivor benefits after retirement. These benefits are immediately payable to a surviving spouse or dependent children under 18 of a member who dies after retiring. The monthly amount of the benefit paid to survivors of a deceased retiree is the same amount paid to the retiree.

A pension benefit is also payable to the surviving spouse of an inactive deferred member who left State Police employment before retiring who had 10 or more years of service credit. The benefit is payable to the surviving spouse when the inactive deferred member would have reached age 50. To receive these benefits, your spouse must submit an application at least 30 days but no more than 90 days prior to when you would have turned 50.

If you are married at the time of death, your spouse will be eligible to continue receiving the same pension and insurance benefits you were receiving.

If you do not have a surviving spouse and you have children under age 18, the benefit will continue until your youngest child is age 18, and will be paid in equal shares only to the children who are under age 18. Payments will be made to dependent children of all retirees eligible for survivor benefits except for those who retired with a deferred retirement pension. For those who take a deferred retirement, there is a benefit payable to a surviving spouse. However, there are no dependent child(ren) survivor provisions for deferred retirees.

If you have no surviving spouse (or if the surviving spouse dies) and there are no benefits payable to children, the residual contributions made by you, plus interest, will be paid to your estate upon your death.

Insurance Information

State Health Plan

Persons enrolled as active employees in the state health plan can continue such coverage in the retiree group by choosing either Aetna¹ or Blue Cross Blue Shield as the administrator for claims processing. For covered persons enrolled in both parts of Medicare, there is no premium for this insurance. For covered persons not on Medicare, a deduction of 5% of the total premium will be made from your monthly pension payments.

Your beneficiary can continue subsidized coverage after your death. (See *Survivor Coverage* on page 36.)

Dependent children who meet the eligibility requirements are eligible for coverage until they turn 19 or are married, whichever comes first. If attending school or college on a regular basis, unmarried children who depend **solely** on the retiree for support may be covered until age 25. Children who are determined to be incapacitated *prior to age 19* may be eligible for continued coverage.

Questions concerning coverage should be addressed to the specific health care provider.

HMOs

Certain HMOs have made arrangements with the Retirement System to allow for continued coverage after retirement. Persons enrolled in an HMO as active employees should check with the Retirement Office to determine if such coverage continues. If not, Aetna¹ or Blue Cross Blue Shield coverage may be chosen, or another HMO available through the Retirement System. For the HMOs participating with the Retirement System, there is no premium deduction from your pension.

Unmarried children who are solely dependent on the retiree for support are eligible for coverage under a retiree HMO until age 19, or age 25 if regularly attending college.

¹ Only retired command officers, or troopers and sergeants who retired before October 1, 1987, are eligible to select Aetna Insurance.

Life Insurance

Life insurance may be continued through the United Benefit Life Insurance Plan for all regular and disability retirees. Deferred retirees are not eligible for life insurance coverage. The coverage will be equal to 25% of the active life insurance coverage. Dependent life insurance coverage is reduced at retirement to \$1,000.00. There will be no deduction from the monthly pension payment for life insurance.

If disability occurs before age 60, you may apply for a “Waiver of Premium” from the life insurance on forms available in your department or agency human resource office. Approval of a “Waiver of Premium” provides the same amount of life insurance as the active coverage until age 65 at no cost. For most state employees, active life insurance coverage is equal to twice the annual salary.

You may be able to purchase additional life insurance coverage at retirement under a separate policy through CIGNA. Cost of the policy is based on the coverage amount and choice of optional beneficiary coverage. Check with your State Police Human Resource office for additional information on this life insurance program.

Vision Insurance

Vision insurance may be continued into the retiree group with a deduction of 10% of the total premium from the monthly pension. Blue Cross Blue Shield is the claims processor for vision insurance.

Dental Insurance

Dental insurance may be continued through the Delta Dental Plan with 10% of the total premium deducted from the monthly pension.

General Insurance Information

You must decide within 30 days after your pension effective date whether you will enroll in the health, dental, and vision insurance plans. If you choose not to enroll, you

may enroll later. (Contact ORS for an application.) If you enroll later, your coverage will begin six months following the first day of the month in which the Retirement System receives your completed insurance application.

The Retirement System can waive the six-month waiting period if you enroll in the plan because you or your dependent lose eligibility for coverage in another group plan, or if you became married within the last 30 days. Coverage can begin within 31 days after the Retirement System receives your **completed** application. Please contact the Retirement System to learn what additional information you may need to submit with your application.

If you wish to add dependents due to birth, adoption, or guardianship, they must be added within 31 days of this event.

If a retiree dies, the beneficiary may continue in the retiree health, vision, and dental insurance group plans only if the beneficiary continues receiving a monthly pension payment.

When Coverage Begins

Insurance coverage usually begins on your retirement effective date. You should receive your insurance identification (ID) cards and enrollment materials about two weeks after you receive your first pension payment.

If you incur expenses for covered medical, dental, or vision services before you receive your insurance ID cards, get itemized statements from the provider. Submit these to the insurance carrier after your card arrives. If you require hospitalization, the hospital can verify your coverage by telephoning ORS in the Lansing area at 517-322-5103, or toll-free at 800-381-5111 during normal business hours.

Insurance for Deferred Members

A deferred member is an individual who:

- Terminated State Police employment with at least 10 years of credited service; and

- Left personal retirement contributions on deposit, if applicable, and
- **Did not meet the minimum service requirement for a regular retirement benefit at the time of separation.** With timely application, the deferred member can begin receiving retirement benefits **at age 50.**

All deferred pension recipients are eligible for health, dental and vision benefits. The amount of premium subsidy is the same as given to age and service retirees. Life insurance is not available to deferred retirees.

Survivor Coverage

Only your beneficiary may continue lifetime subsidized medical, dental, and vision coverage after your death. Your enrolled dependents are eligible for continued subsidized insurance coverage only as long as they remain eligible for a pension benefit.

Continuation of Coverage

Pursuant to the Public Health Service Act (PHSA), state and local government group health plans must provide continuation coverage to certain individuals under the Consolidated Omnibus Budget Reconciliation Act (COBRA).

To qualify for COBRA benefits, you must be a spouse or dependent child of a State Police retiree and must be receiving insurance benefits through this Retirement System at the time of a **qualifying event**.

If you are a spouse, a qualifying event would be death, divorce, or legal separation from the State Police retiree. If you are a dependent child, a qualifying event would be the retiree's death or loss of dependent status under the requirements of the plan.

NOTE: If a person covered for health insurance becomes ineligible for continuation of coverage because of divorce, death of the retiree, or a child attaining an age of ineligibility, a federal law allows for the continuation through the state's group plan for up to 36 months.

The former covered person must notify ORS within 30 days after the qualifying event to apply for coverage and will be required to pay 102% of the insurance premium to the Department of Management and Budget, Employee Benefits Division. This insurance continuation is applied to health, vision, and dental coverage.

Medicare and You

If you qualify for Medicare health insurance, you **must** enroll at age 65 or sooner, if eligible, for both hospital – Part A, and medical – Part B through the Social Security Administration to maintain maximum benefit coverage. From that point on, your State Police insurance no longer covers your expenses normally covered by Medicare.

Persons under age 65 who are receiving a social security disability pension become eligible for Medicare after receiving 24 months of disability benefits. Your State Police retirement health care coverage will be adjusted to supplement Medicare – both hospital – Part A, and medical – Part B.

In any case, Medicare-eligible retirees and covered dependents **must send** ORS a copy of their Medicare card to have the supplemental portion of their claims automatically processed. This will also ensure that the Retirement System is aware of your Medicare coverage.

Coordination of Benefits

Your State Police retirement health, dental, and vision plans contain a Coordination of Benefits (COB) provision that applies when you or your enrolled dependents are covered under more than one group plan. The combined payments of all plans will not exceed the allowable expenses of your care or services.

If both you and your spouse are State Police retirees within the same group plan, there will be no advantage for duplicating coverage, because COB will not apply.

Appendix A: Pension Calculation Worksheets

By following the steps on the worksheets on the next several pages, you can estimate your monthly State Police pension for regular retirement and deferred retirement. For help estimating duty and nonduty disability retirement benefits, please contact the Office of Retirement Services.

Prior to retirement your pension can only be estimated because your wages and/or service through your date of termination are used when figuring your pension. Your pension will be figured using the average of your two **final** years of total earnings. These earnings are also known as Final Average Compensation or FAC.

Your Final Average Compensation includes the following items earned during your last two years of service:

- Regular salary including salary which is deferred as part of a state deferred compensation program
- Overtime, shift differential, and shift differential overtime
- Gross pay adjustments
- Up to a maximum of 240 hours of accumulated annual leave and personal leave combined, paid at the time of retirement separation
- Deferred hours under Plan B for the fiscal years ending September 30, 1981, and September 30, 1982, that are paid at the time of retirement separation
- Longevity pay
- Bomb squad pay
- Post 29 freeway premium
- On-call pay
- Emergency Response Compensation (ERC)

Your pension is calculated using the following formula:

Regular and Duty Disability Retirement: $60\% (.60) \times \text{FAC}$

Deferred Retirement: $2\% (.02) \times \text{FAC} \times \text{total years and fraction of a year of credited service}$

Nonduty Disability Retirement: $2.4\% (.024) \times \text{FAC} \times \text{total years and fraction of a year of credited service}$

Regular Pension

Example

Instructions	Year	Wages	Year	Wages
1. List your total wages for the last 2 years. (Include payments listed on page 38.) *Includes 240 hrs. A/L, Comp Time, Longevity, ERC Pay			7/7/01-12/31/01 2002 12/31/02-7/7/03*	\$16,922.43 51,480.84 40,334.75
2. Total Wages.				\$108,738.02
3. Divide total wages by 2. This is your Final Average Compensation (FAC).				\$54,369.01
4. Multiply your FAC by 60% (.60).				<u> </u> X .60
5. This is your annual pension amount.				\$32,621.41
6. Divide by 12. This is your monthly pension amount.				<u> </u> ÷ 12 \$2,718.45

Deferred Pension

Example

Instructions	Year	Wages	Year	Wages
1. List your total wages for the last 2 years of State Police employment. (Include payments listed on page 38.)			7/7/01-12/13/01 2002	\$16,922.43 \$51,480.84
			12/31/02-7/7/03	\$40,334.75
2. Total Wages.				\$108,738.02
3. Divide total wages by 2. This is your Final Average Compensation (FAC).				\$54,369.01
4. Multiply your FAC by 2% (.02).				<u> X .02</u> \$1,087.38
5. Write your total of service credit years and months (*convert months using chart below) and multiply.			(15 years, 3 months)	<u> X 15.25</u> \$16,582.55
5. This is your annual pension amount.				\$16,582.55
6. Divide by 12. This is your monthly pension amount.				<u> ÷ 12</u> \$1,381.88

* 1 month = .0833	5 months = .4167	9 months = .75
2 months = .1667	6 months = .5	10 months = .8333
3 months = .25	7 months = .5833	11 months = .9167
4 months = .3333	8 months = .6667	

Post-Retirement Increases

Your retirement plan provides permanent post-retirement increases. The increases are equal to 2% (.02) of your initial pension with an annual maximum of \$500. The first increase is permanently added to your monthly pension the second October following your retirement. This same amount is added again each following October. The increases are permanent and cumulative but not compounded.

Example

1. Write your monthly pension amount.		\$2,718.45
2. Multiply by .02. This amount is permanently added to your monthly pension each October beginning the second October following your retirement, if less than \$41.67.	X .02	<div><div><div><div></div><div>X .02</div><div></div></div><div>\$54.37</div></div></div>
3. If the result is more than \$41.67, reduce to \$41.67.		\$41.67

Appendix B: Divorce and Domestic Relations Orders

If you are a member or deferred member of the State Police Retirement System when you divorce, the Court may order the Retirement System to pay a portion of your pension to an alternate payee, typically your former spouse or dependent child.

Before the Retirement System can legally carry out the Court's ruling, the judge must issue a specific type of order, known as an Eligible Domestic Relations Order, or EDRO. Your EDRO must be on file with the Retirement System before your retirement effective date.

An EDRO is a negotiated agreement between divorcing parties, subject to approval by the Court. An EDRO is not necessary if both parties agree that no pension benefit will be shared in the divorce settlement.

By law, an EDRO must contain specific information in a specific format. Contact ORS for a sample EDRO.

Two Michigan laws control the division of your pension during divorce. These are the Eligible Domestic Relations Order (EDRO) Act (1991 P.A. 46); and the State Police Retirement Act (1986 P.A. 182, as amended). **Before the Retirement System can implement an EDRO, it must comply with the provisions of both these laws.**

The EDRO Act does not apply to a divorce that occurs after retirement. A divorce after retirement cancels any spousal survivor benefits. However a Domestic Relations Order (DRO) could be filed to split the retiree's pension benefit.

An EDRO may not require a benefit which the Retirement System does not otherwise provide, or a form of payment the EDRO Act does not provide. It cannot order the Retirement System to pay an increased benefit based on actuarial value or to make payment to an alternate payee that is payable to another alternate payee under a previously filed EDRO.

An EDRO applies only to the pension portion of your State Police retirement benefit package. It cannot order State Police retirement insurance coverage benefits for your alternate payee.

Appendix C: Financial Planning Information

Retirement planning begins with two questions: How much income will you need in retirement? Where will the money come from?

Ensuring you will have enough money in retirement to maintain the life-style you wish to lead is a fundamental concern. As you evaluate your situation, keep in mind that most of your retirement income will come from three sources:

- Your State Police pension;
- Social Security (if applicable);
- Income from personal savings and investments.

You may have other income sources, such as post-retirement employment, a spouse's income, an estate or a trust. However, for the purposes of this discussion, these are ignored because of their special or temporary nature.

How much income do you need to maintain your standard of living? Retirement planners agree that 60% to 80% of the final year's gross salary is necessary. That general guideline may need to be adjusted for your particular circumstances. For instance, you may need more income if you plan to relocate to an area with a higher cost of living.

For planning purposes, 75% is a good target.

Example: If your final gross salary is \$50,000, you will need about \$37,500 in your first year of retirement. ($\$50,000 \times .75 = \$37,500$)

Inflation

A typical person retiring today at age 55 should plan to live at least 30 more years. To retain the same purchasing power throughout 30 or more years of retirement, your income must increase each year to keep pace with inflation.

Consider the common items you buy every day, such as a loaf of bread or a gallon of gasoline and how their costs have increased over 30 years.

Some costs have increased by as much as 500%.

You should plan for your income to keep pace with inflation to maintain your purchasing power as it exists when you retire. To do this, you must make an educated guess what inflation will be in the coming decades. While the past is no indication of the future, inflation has averaged 4.89% per year over the past 20 years.

While many of your expenses are apt to increase with inflation, some sources of your retirement income may not. How will income from your three primary sources increase during your retirement years?

State Police Pension: Each October you will receive a 2% cumulative non-compounding increase.

Social Security (if applicable): Benefits are indexed to the Consumer Price Index and adjusted each January.

Personal Savings and Investments: As inflation increases your income needs, your savings will be used at a faster rate. If your investment earnings do not replace that income adequately, you are at risk of outliving your savings.

Your State Police pension plan is explained within this Guidelines booklet. Now you need to consider how you're going to supplement your income source(s) with your own personal savings.

Choice of investments

Investments vary according to risk and expected return. Investments that are traditionally considered safe, such as passbook savings accounts, generally provide a low rate of return. To get a higher rate of return, you must be willing to assume some risk — being aware that you could lose some or all of your money. You have to decide how high a rate of return you want and how much risk you're willing to assume to achieve a high rate of return.

Another factor in choosing your personal investments is liquidity. Liquidity refers to how easily your investment can be converted into cash. For example, a savings account is a liquid investment, because you can easily make a withdrawal.

If you invest a substantial amount in non-liquid assets, such as stock, you may lose money if you have to convert them to cash. That's because you may be forced to sell at a loss if you need money quickly for an emergency.

Here are some investment strategy options you may want to consider. Remember, you must keep in mind your own retirement income needs, as well as the investment risk you're comfortable with.

Tax-deferred investments

Deferred compensation plans, such as the 401K and the 457 plan, available to most State employees, are tax-deferred investments. That means the invested dollars are not subject to tax until you receive them. Your money grows faster, and your take-home pay is greater than if you save the same or equivalent amount on an after-tax basis.

Diversification of investments

Many investment counselors favor diversification as a way to maximize return and lessen risk. For example, early in your career you minimize stock investments because you need liquid assets to provide for emergencies. You would, therefore, keep most of your money in a checking or savings account, money market or short-term certificate of deposit (CD).

Later, when you've saved enough to meet emergencies, you may be able to afford some risk by investing in stocks to help maximize your return. If the value of your investment drops, you have many earnings years to recuperate. As you approach retirement, you should begin reducing reliance on riskier investments because you have fewer years to recuperate.

The most important ingredients in financial planning are:

- *Goal Setting*
- *Planning*
- *Action*

You must look into the future and envision when you want to retire (*Goal Setting*). Once you have an idea of when you would like to retire, it becomes a simpler matter to determine how much personal savings is required (*Planning*). The next component is to actually begin saving (*Action*). The earlier you take action, the longer your savings will be able to work for you.

This information is very general, and it is not intended to be an investment guide. Instead, ORS wants you to be aware that you will need personal savings to supplement your retirement income. You may wish to consult a financial planning expert for advice appropriate to your own needs.

The ORS web site, www.michigan.gov/ors, also has links to a number of financial planning resources which may be of interest to you.

Index

A

- Active Duty Military Service 15
 - Intervening* 15, 16
 - Nonintervening* 15, 16

B

- Beneficiary 21, 22, 34
 - deferred survivor pension* 21
 - eligible dependents* 21, 22, 32
 - insurance coverage* 35, 36
 - life insurance* 28
 - monthly survivor pension* 21

C

- Calculating Final Average Compensation 30, 38
- COBRA Insurance 36
- Contributions 8, 9, 10, 11, 25
 - payment of* 22, 32
 - pre-1974* 9
 - refunds of* 10, 22

D

- Deferred Members
 - insurance* 35
- Deferred Retirement 8, 10, 11, 14, 38
 - applying for* 12
- Dental Insurance 34
- Disability
 - duty* 19
 - nonduty* 18
 - pension* 18
 - Waiver of Life Insurance Premium* 34

- Diversification of Investments 45
- Duty Disability Pension 19
- Duty Survivor Pension 21

E

- Earning Service Credit 14
- Electronic Funds Transfer 27, 28
- Eligibility 14, 29
 - for retirement* 8, 12, 18
- Eligible Domestic Relations Order (EDRO) 13, 42

F

- Federal Income Tax 25
- Final Average Compensation (FAC) 8, 19, 20, 21
 - calculating* 30, 38
- Financial Planning Information 43
- Funeral Expenses 22

H

- Health Insurance 34
- HMOs 33

I

- Inflation 43, 44
- Insurance 8, 28, 33
 - COBRA* 36
 - continuation of coverage* 36
 - coordination of benefits* 37
 - deferred members* 35
 - dental* 34
 - dependent coverage* 33, 34
 - health* 34
 - life* 11, 24, 34
 - Medicare* 33, 37
 - subsidy* 33
 - subsidy for deferred members* 36
 - survivor coverage* 32, 36
 - vision* 34
 - when coverage begins* 35
- Interest 9, 10, 22

L

- Life Insurance 11, 24, 34
 - beneficiary designation* 23
 - dependent* 24

M

- Mailing Address 5
- Map of Office Locations 7
- Maternity/Paternity/Childrearing Service Credit 15, 17
- Medicare Coverage 33, 34, 37
- Military Service 15, 16

N

Nonduty Disability Pension 18, 38

Nonduty Survivor Pension 21

P

Pension 8

applying for 28

calculation 8, 30, 38

deferred 8, 10, 11, 21

disability 8, 18, 19

duty survivor 21

eligibility 11

payment schedule 24

payments 27

post-retirement increases 41

preretirement survivor 18

survivor benefits 32

when payments begin 12

Post-Retirement

Increases 22, 31, 41

Post-Tax Contributions 9, 25

Preretirement Survivor Pension 18

R

Refund of Contributions 22

Retirement Application Packet

(Contents) 28

Retirement Application Process 28

Retirement at a Glance 8

Retirement Planning

Information 11

Retirement Readiness Checklist 23

S

Service Credit 8, 14

adding to 13, 14

cost 15

earning 14

maternity/paternity/childrearing

15, 17

military 15

types of additional credit 15

VISTA/Peace Corps 15, 17

Weekly Worker's Compensation 18

Social Security 37, 43

State and Local Income Tax 25

State Police Retirement Act 3, 11

Survivor

benefits 22, 32

Survivor Benefits

applying for 22

Survivor Pension Recipients 21, 22

T

Taxes 25

V

Vision Insurance 34

VISTA/Peace Corps 15, 17

W

Worker's Compensation 16

Worksheets

pension calculation 38

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